

Nebraska and Local Sales Tax on Leased Motor Vehicles

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Web site: www.revenue.state.ne.us



The purpose of this information guide is to explain the collection of Nebraska and local sales tax on leased motor vehicles.

Overview

The gross receipts from the lease of motor vehicles in this state are subject to Nebraska and applicable local sales tax.

The following information in this guide pertains only to leases that are classified as “operating” leases. Leases considered “conditional sales” or “financing leases” are not covered. Such conditional sales or financing leases are taxed on the total contract price at the beginning of the lease, with no additional tax due on the periodic lease payments.

When the term “motor vehicle” or “vehicle” is used in this information guide, it shall refer to automobiles, trucks, trailers, semi trailers, and truck tractors.

Lessor’s responsibilities

Permits. All lessors of motor vehicles in Nebraska are retailers and are required to hold a Nebraska Sales Tax Permit. This includes lessors who are located in another state who have leased vehicles registered in this state.

Lessors are agents of the state for purposes of collecting sales tax. The tax collected by lessors is a trust fund owned by the State of Nebraska. The taxes collected should be separated from other business receipts and retained or deposited in a separate account.

Application for the permit is made on a Nebraska Tax Application, Form 20.

Collecting the tax. Lessors of motor vehicles must collect and remit Nebraska and applicable local sales tax on the gross receipts from the leases of motor vehicles registered in Nebraska. Mandatory charges for refueling, insurance, property taxes, and other items are considered to be part of the gross lease receipts and are subject to sales tax even if separately stated. Changes in the state or local sales and use tax rates must be reflected on all payments recorded on or after the effective date of the rate change.

- ✓ **Leases of one year or more.** Lessors must collect Nebraska and applicable local sales tax on motor vehicles leased for periods of one year or more at the rate in effect at the location indicated on the application for registration.
- ✓ **Leases of less than one year.** Lessors must collect sales tax on motor vehicles leased for periods of less than one year at the rate in effect at the location where the lessee takes possession of the vehicle.

Down payments. All down payments, including document and origination fees, on leased vehicles received by car or truck dealers are considered to be the first lease payment and are subject to sales tax, even though subsequent lease payments are made to a financing company.

Remitting the tax. Lessors remit the sales tax collected on a Nebraska and Local Sales and Use Tax Return, Form 10. Returns are due monthly, quarterly, or annually, depending on the amount of tax collected during the course of the calendar year.

Purchase of Repair Parts for Leased Motor Vehicles.

Lessors who are responsible for the upkeep of leased motor vehicles may purchase tax-free (for resale) repair and maintenance parts for the leased vehicles, provided the repair and maintenance parts become a physical part of the leased vehicle. To purchase such items tax free, the lessor must issue to the seller a properly completed Nebraska Resale or Exempt Sale Certificate, Form 13, Section A.

Lease originates in Nebraska

When a lease originates in Nebraska, the Nebraska and applicable local sales tax continues to apply to the lease payments even after the vehicle is moved to another state. Unless the lease is amended or renegotiated in any way, the original terms of the lease continue in effect until the lease expires.

Lease originates in another state

When a lease originates in another state, the Nebraska and applicable local sales tax applies to all future lease payments that become due after the vehicle is registered in Nebraska. If the state of origin continues to tax the lease payments, Nebraska allows a credit for properly paid sales tax to the state of origin. If the tax paid to the other state is greater than or equal to the Nebraska and local sales tax, no additional tax is due in this state. If the tax paid to the other state is less than the Nebraska and local tax due, the lessee owes the difference to this state.

Motor vehicles leased for periods of one year or more are subject to sales tax in Nebraska when the location indicated on the application for registration of the vehicle is in this state, regardless of the location of the lessor. The tax must be collected and remitted at the rate in effect at that location.

Motor vehicles leased for periods of less than one year are taxable at the rate in effect at the location where the lessee takes possession. The lessor must collect tax from the lessee at the applicable rate in effect in that state. If the rate in the other state is equal to or greater than the Nebraska and applicable local sales tax rate, then the lessee does not owe any consumer's use tax in Nebraska. However, if the rate in effect in the other state is less than the Nebraska and applicable local sales tax rate, then the lessee owes consumer's use tax on the difference.

Leased vehicle transferred into Nebraska

When a vehicle is transferred into Nebraska and the lessor is operating on the "lessor's option" in Nebraska (see

"**Lessor's option**" section), no additional tax is due on the lease payments.

If the lessor has paid the tax on an up-front basis in another state but has not elected to operate on the "lessor's option" in Nebraska, no credit is allowed for the tax paid to the other state. The lessor must collect and remit the Nebraska and applicable local sales tax on the lease payments that become due after the vehicle is registered in Nebraska.

Nebraska lessee — possession of vehicle out-of-state

A lessee who lives in Nebraska who takes possession of a motor vehicle under a lease agreement outside Nebraska and then brings the motor vehicle into Nebraska and registers it for operation upon the highways of Nebraska incurs a Nebraska use tax liability on the gross lease receipts paid to the lessor. A credit will be allowed for the amount of properly paid tax to the state where the motor vehicle was delivered to the lessee.

If the terms of the lease agreement are changed, the gross lease receipts become subject to Nebraska sales tax on the date of the change. A credit will be allowed for the amount of properly paid tax to the state where the motor vehicle was delivered to the lessee.

Out-of-state lessee moves to Nebraska

If the out-of-state lessor is on the "lessor's option" in Nebraska and has paid tax to the other state on the cost of the vehicle when the vehicle was purchased, a credit is allowed against the Nebraska tax due when the vehicle is registered in Nebraska. No additional tax is due on the rental payments in Nebraska.

If the out-of-state lessor is not on the "lessor's option" in Nebraska and has paid the tax on the cost of the vehicle to the other state, no credit is allowed against the Nebraska sales tax due when the vehicle is registered in Nebraska. The out-of-state lessor must obtain a sales tax permit and collect and remit the Nebraska and any applicable local sales tax on the rental payments which become due after the vehicle is registered in Nebraska.

Leases to common or contract carriers

Lease payments collected from common or contract carriers that hold a valid Nebraska Exemption Certificate number are exempt, **provided** a Nebraska Resale or Exempt Sale Certificate, Form 13, Section B, is obtained from the lessee.

Owner/operators who lease motor vehicles to common or contract carriers are retailers. They must obtain a Nebraska Sales Tax Permit and collect Nebraska and applicable local sales tax on all lease receipts unless the lessee issues a properly completed Form 13, Section B, to support any tax-free leases.

It is important that owners of motor vehicles used to transport people or property determine whether or not they have:

- Entered into a contract to transport people or property for hire; or
- Entered into a lease agreement.

Lessor's option

Lessors of motor vehicles may elect to pay the sales tax on the cost of all vehicles instead of collecting and remitting the tax on the gross lease receipts. This election applies to all vehicles leased for periods of one year or more, including those presently under lease EXCEPT those vehicles leased for use in a common or contract carriage capacity.

If any of the vehicles currently under lease are used in a common or contract carriage capacity, the lessor must also list those vehicles, the lessee of each vehicle, and the lessee's Nebraska common or contract carrier exemption number.

Lessors operating under this election, who lease vehicles both for periods of less than one year and for periods of one year or more, MUST separate taxable lease receipts from nontaxable receipts in their records.

Lease buy-outs

Lessee purchases the buy-out. When a vehicle is purchased by the lessee on a buy-out option, sales tax on the buy-out amount is paid to the county treasurer at the time of registration or within 30 days of the purchase of the vehicle, whichever comes first. The lessor must issue a Nebraska Sales/Use Tax and Tire Fee Statement for Motor Vehicle and Trailer Sales, Form 6.

Motor vehicle dealer purchases the buy-out. When a motor vehicle dealer exercises the buy-out option for the lessee, the dealer may purchase the vehicle without sales tax, if the vehicle is purchased for resale. The dealer must issue a Nebraska Resale or Exempt Sale Certificate, Form 13, to the lessor from whom the vehicle is purchased.

Trade-in of leased vehicle

If the lessee is purchasing or leasing a different vehicle, the lessee cannot use the previously leased vehicle that the

dealer purchased as a trade-in for lowering the sales tax on the purchase or lease of a different vehicle.

Leased vehicles cannot be used as trade-ins to reduce the sales price of a subsequently purchased vehicle.

Exemptions

Motor vehicles leased for certain purposes or to certain entities are exempt from sales tax. Those lease transactions that are exempt from sales tax in this state are leases to:

- ✓ A common or contract carrier who holds a valid certificate of exemption issued by the Nebraska Department of Revenue;
- ✓ Qualified exempt nonprofit organizations as indicated in Nebraska Sales and Use Tax Regulation 1-090, Nonprofit Organizations;
- ✓ Religious organizations or educational institutions as indicated in Nebraska Sales and Use Tax Regulations 1-091, Religious Organizations and 1-092, Educational Institutions; and
- ✓ Qualified governmental units as indicated in Nebraska Sales and Use Tax Regulation 1-093, Governmental Units.

Documenting exempt leases. Leases on which sales tax is not collected must be supported by a properly completed Form 13.

Motor vehicle tax on rental vehicles

The four and one-half percent fee on the rental of private passenger vehicles that is collected by the lessor is separate from the sales tax owed on the rental of a motor vehicle and is collected concurrently with the sales tax. The fee is collected by the rental company (lessor) and is used to reimburse the company for the property taxes paid on such vehicles. If the amount of fees collected by the rental company exceeds the property tax paid on the vehicle, the excess is remitted to the county treasurer and may be used for any lawful purpose of the county. This fee is not subject to sales tax when separately stated.

FOR NEBRASKA TAX ASSISTANCE

For All Tax Programs Except Motor Fuels

Contact your regional office or call ***1-800-742-7474**

or **1-402-471-5729**

Nebraska Department of Revenue Web site address: www.revenue.state.ne.us

A copy of the Taxpayer Bill of Rights is available by calling any of our regional offices or visiting our Web site.

SCOTTSBLUFF

Panhandle State Office Complex
4500 Avenue I, Box 1500
Scottsbluff, Nebraska 69363-1500
Telephone (308) 632-1200

NORTH PLATTE

Craft State Office Building
200 South Silber Street
North Platte, Nebraska 69101-4200
Telephone (308) 535-8250

GRAND ISLAND

First Federal Bank Building, Suite 460
1811 West Second Street
Grand Island, Nebraska 68803-5469
Telephone (308) 385-6067

NORFOLK

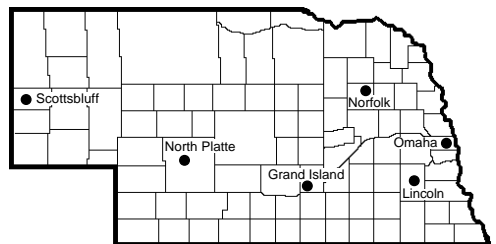
304 North 5th Street, Suite "D"
Norfolk, Nebraska 68701-4091
Telephone (402) 370-3333

OMAHA

Nebraska State Office Building
1313 Farnam-on-the-Mall
Omaha, Nebraska 68102-1871
Telephone (402) 595-2065

LINCOLN

Nebraska State Office Building
301 Centennial Mall South
Lincoln, Nebraska 68509-4818
Telephone (402) 471-5729



For Motor Fuels tax programs only call toll free 1-800-554-3835 (Lincoln residents call 471-5730).

Hearing-impaired individuals may call the Text Telephone (TT) at 1-800-382-9309. TDD (Telecommunications Device for the Deaf) is designated by the use of "TT," which is consistent with the Americans with Disabilities Act.

*Toll free in Nebraska and Iowa